

Decision 16-09-014 September 15, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
San Gabriel Valley Water Company
(U337W) for Authority to Increase Rates
Charged for Water Service in its
Los Angeles County Division by \$10,232,700
or 17.8% in July 2011, \$1,767,700 or 2.6% in
July 2012, and \$2,245,800 or 3.2% in
July 2013 and in its Fontana Water
Company division by \$1,252,200 or 2.1%
in July 2011.

Application 10-07-019
(Filed July 16, 2010)

**DECISION GRANTING THE DECEMBER 31, 2015 PETITION FOR
MODIFICATION OF DECISION 11-11-018**

Summary

This decision grants the uncontested petition for modification filed by San Gabriel Valley Water Company (U337W) to amend the scope of capital project Plant G6 listed in Section 4.3.2. of Decision 11-11-018. The original scope of Plant G6 included building a new reservoir and recoating an existing reservoir. Because the recoating of the existing reservoir turned out to be infeasible, this decision removes that part of the scope of the Plant G6 project and decreases the projected costs accordingly.

This proceeding is closed.

1. Background

On July 16, 2010, San Gabriel Valley Water Company ("San Gabriel") filed the above-captioned application – the general rate case ("GRC") for its

Los Angeles and General Office divisions. On November 10, 2011, the Commission issued Decision (D.) 11-11-018, which approved the joint motion for adoption of a settlement agreement between the Office of Ratepayer Advocates (ORA) and San Gabriel.

Pursuant to the settlement agreement and in Section 4.3.2. of D.11-11-018, six capital projects were excluded from the forecasted capital budget allowed in the rate base. After each project is found to be completed, used and useful, and placed into service, San Gabriel may file an advice letter to include each project's actual costs in the rate base so long as the costs did not exceed the estimated per project amount set in D.11-11-018. One of these six capital projects is Plant G6, the subject matter of this decision.

The original scope of Plant G6 contained two parts: (1) construct a new 500,000 gallon water storage reservoir, and (2) recoat the adjacent existing 600,000 gallon reservoir located in the City of Monterey Park.

The table below details the original cost estimate for Plant G6:

Work to be Performed	Estimated Cost
Part 1: Construct New Reservoir	
Acquire new land for new reservoir	\$500,000
Construct new reservoir and associated appurtenances	\$590,000
Construct wall and fence	\$250,000
Construct paving and drainage	\$75,000
Perform permitting and related work	\$55,000
Subtotal of Estimated Cost for New Reservoir	\$1,470,000
Part 2: Recoat Existing Reservoir	
Recoat the existing reservoir	\$160,000
Total Estimated Cost	\$1,630,000

San Gabriel completed and placed into service part one of the Plant G6 project on May 29, 2014. The actual cost to construct the new reservoir was \$1,855,799, or \$385,799 over the estimated \$1,470,000. According to San Gabriel, three factors drove this higher cost: (1) higher fair market value for purchased property; (2) a more stable and safe design for the foundation; and (3) relocation of piping connecting the reservoir to the distribution system. The Division of Water and Audits (DWA) confirmed that San Gabriel put the new reservoir into service on May 29, 2014 and that the new reservoir is currently used and useful.

San Gabriel did not complete part two of the G6 project since the existing reservoir required significant modifications and repairs in addition to the recoat. Prior to starting work, San Gabriel hired two reservoir and structural engineering companies to inspect the existing reservoir built in 1960. In March 2013, Harper and Associates Engineering, Inc. (Harper Engineering) finished its inspection of the existing reservoir. Harper Engineering concluded that the existing reservoir had numerous safety and structural deficiencies, describing the reservoir as in a “very poor condition.” They also determined that an earthquake would produce “shell buckling” because the reservoir was not anchored to its foundation.

Further inspection by Geotechnical Solutions, Inc. indicated that the existing reservoir site would require drilled pipes to support the weight of the tank. Thus, in addition to recoating the interior and exterior of the tank shell, the existing reservoir required significant repairs and modification to comply with current industry standards and California Occupational Safety and Health Administration regulations. Moreover, these inspections indicated that the cost required to repair and modify the existing reservoir would be comparable to the

cost of building a replacement reservoir. Consequently, San Gabriel did not complete the recoating as originally planned.

In accordance to Section 4.3.2. of D.11-11-018, San Gabriel submitted Tier 2 Advice Letter 442 (AL 442) on June 17, 2014 requesting its rate base be increased by \$1,630,000 for capital costs related to Plant G6. DWA rejected AL 442 because DWA determined that San Gabriel had not complied with the requirements of Section 4.3.2. Although San Gabriel finished the new reservoir, part two – the recoating of the existing reservoir – had not been completed, used and useful, nor placed in service. DWA instructed San Gabriel to either complete part two of the project and re-file an advice letter, or file a petition for modification of D.11-11-018 to amend the project scope before filing a new advice letter.

On February 6, 2015, San Gabriel submitted Tier 3 Advice Letter 456 (AL 456) proposing that the rate base be increased by its full investment for the new Plant G6 reservoir of \$1,855,799. San Gabriel argued that the new reservoir constituted a new project outside of the approved by advice letter process prescribed in D.11-11-018. AL 456 explained how the poor condition of the existing reservoir required San Gabriel to abandon its plans to recoat the existing reservoir. DWA issued Proposed Resolution W-5063 to approve AL 456, and ORA submitted comments in opposition. ORA argued that the new reservoir at Plant G6 is within the original project scope described in the settlement agreement and approved in D.11-11-018. Not completing the recoat portion of the project did not constitute a new project as asserted by San Gabriel. ORA further stated that the Proposed Resolution W-5063 denied ORA an opportunity to be heard in altering the settlement agreement. ORA suggested that the appropriate course of action would be for San Gabriel to file a petition for

modification of D.11-11-018 to amend the Plant G6 project scope before filing a new advice letter. At the California Public Utilities Commission's (Commission) November 5, 2015 meeting, the Commission rejected Proposed Resolution W-5063 by a 0-5 vote.

On December 31, 2015, San Gabriel filed the instant petition for modification to change the scope of the Plant G6 project and eliminate part two of the capital project to recoat the existing reservoir. No protests or responses to the petition were filed.

In its petition, San Gabriel requests that the scope for part one of the project be redefined with a total cost of \$1,470,000, net of accumulated depreciation, to be included in rates, subject to consideration of the reasonableness of the cost difference between \$1,470,000 and the \$1,855,799 actual cost in its next general rate case.

Section 4.3.2. of D.11-11-018 states, "[t]he settlement provides that San Gabriel may file advice letters to enter the actual costs associated with these projects into rate base, not to exceed the estimated amounts agreed upon the settlement, after the project has been completed, is used and useful, and is placed into service."

This decision grants San Gabriel's uncontested petition for modification to amend the scope of capital project Plant G6 of Section 4.3.2. in D.11-11-018.

2. Modification to the Decision

Consistent with the amended scope for the capital project at Plant G6, this decision modifies D.11-11-018 as follows:

- a. On page 15 of D.11-11-018, insert a new section to read as follows:

“4.3.3. Modified Provision for Plant G6

“According to San Gabriel's Petition for Modification of this decision, filed with the Commission on December 31, 2015, San Gabriel was unable to complete part two of the advice letter project Plant G6. The recoating of the existing reservoir at an estimated cost of \$160,000 turned out to be infeasible. San Gabriel proceeded to carry out part one of the approved project at a cost exceeding the estimate, and placed that project in service in May 2014. In its Petition for Modification, San Gabriel requests that the Commission redefine the project at Plant G6 to remove the recoating of the existing reservoir and the associated estimated cost of \$160,000 from the scope of the project and authorize San Gabriel to file a Tier 2 advice letter revising its tariff schedules to reflect a \$1,470,000 increase in San Gabriel's rate base (the estimated costs of part one of the Plant G6 project that San Gabriel completed), excluding accumulated depreciation and the 18 months of incremental cost and rate of return. ORA is the only other party to the settlement agreement and does not object to the modifications requested in San Gabriel's petition.”

- b. On page 39 of D.11-11-018, insert the following new Findings of Facts:

“16. Part two of the advice letter project at Plant G6 that was proposed in the settlement agreement and approved in this decision – the recoating of the existing reservoir at an estimated cost of \$160,000 – turned out to be infeasible.

“17. San Gabriel completed part one of the Plant G6 project at a cost exceeding the estimated part one cost of \$1,470,000, and placed the revised project in service in May 2014.

“18. In December 2015, San Gabriel petitioned to modify this decision to authorize San Gabriel to file an advice letter

including the \$1,470,000 estimated cost of the redefined Plant G6 project, less accumulated depreciation and incremental cost and rate of return, in its rate base.

“19. ORA does not object to San Gabriel's petition.”

- c. On page 40 of D.11-11-018, insert the following new Conclusion of Law:

“8. It is reasonable to modify this decision as proposed in San Gabriel's petition to modify, filed on December 31, 2015.”

- d. On page 41 of D.11-11-018, insert the following clause after the comma at the end of the third line of Ordering Paragraph 6:

“including the redefined project at Plant G6 at an estimated cost of \$1,470,000,”

3. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Public Utilities Code Section 311(g)(2) and Rule 14.6(c)(2), the otherwise applicable 30-day comment period for public review and comment is waived.

4. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and S. Pat Tsen is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. San Gabriel filed its Petition to Modify D.11-11-018 on December 31, 2015, requesting the Commission to amend the scope of advice letter project plan G6.

2. Plant G6 had two parts, part one consisted of constructing a reservoir at an estimated cost of \$1,470,000 and part two consisted of recoating the existing reservoir at an estimated cost of \$160,000.

3. Part two of the project at Plant G6 to recoat the existing reservoir is infeasible.

4. On May 29, 2014, San Gabriel completed and placed into service part one of the Plant G6 capital project - a new 500,000 gallon water storage reservoir.

5. The actual cost to construct the new reservoir exceeded the total estimated \$1,470,000 cost for that part of the project.

6. On December 31, 2015, San Gabriel petitioned to modify D.11-11-018 to authorize San Gabriel to file an advice letter to include in its rate base the redefined Plant G6 capital project of \$1,470,000, less accumulated depreciation and foregone incremental cost and rate of return.

7. ORA does not object to San Gabriel's petition.

Conclusions of Law

1. It is reasonable to modify D.11-11-018 as proposed in San Gabriel's petition filed on December 31, 2015.

2. Once San Gabriel files a new advice letter, it is reasonable for DWA to review this advice letter based on the modifications in D.11-11-018.

3. Because this uncontested matter grants the requested relief, the otherwise applicable 30-day review and comment period may be waived, and today's decision should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. Decision (D.) 11-11-018 is modified as follows:

a. On page 15 of D.11-11-018, insert a new section to read as follows:

“4.3.3. Modified Provision for Plant G6

“According to San Gabriel's Petition for Modification of this decision, filed with the Commission on December 31, 2015, San Gabriel was unable to complete part two of the advice letter project Plant G6. The

recoating of the existing reservoir at an estimated cost of \$160,000 turned out to be infeasible. San Gabriel proceeded to carry out part one of the approved project at a cost exceeding the estimate, and placed that project in service in May 2014. In its Petition for Modification, San Gabriel requests that the Commission redefine the project at Plant G6 to remove the recoating of the existing reservoir and the associated estimated cost of \$160,000 from the scope of the project and authorize San Gabriel to file a Tier 2 advice letter revising its tariff schedules to reflect a \$1,470,000 increase in San Gabriel's rate base (the estimated costs of part one of the Plant G6 project that San Gabriel completed), excluding accumulated depreciation and the 18 months of incremental cost and rate of return. ORA is the only other party to the settlement agreement and does not object to the modifications requested in San Gabriel's petition."

- b. On page 39 of D.11-11-018, insert the following new Findings of Facts:

"16. Part two of the advice letter project at Plant G6 that was proposed in the settlement agreement and approved in this decision – the recoating of the existing reservoir at an estimated cost of \$160,000 – turned out to be infeasible.

"17. San Gabriel completed part one of the Plant G6 project at a cost exceeding the estimated part one cost of \$1,470,000, and placed the revised project in service in May 2014.

"18. In December 2015, San Gabriel petitioned to modify this decision to authorize San Gabriel to file an advice letter including the \$1,470,000 estimated cost of the redefined Plant G6 project, less accumulated depreciation and incremental cost and rate of return, in its rate base.

"19. ORA does not object to San Gabriel's petition."

- c. On page 40 of D.11-11-018, insert the following new Conclusion of Law:

“8. It is reasonable to modify this decision as proposed in San Gabriel's petition to modify, filed on December 31, 2015.”

- d. On page 41 of D.11-11-018, insert the following clause after the comma at the end of the third line of Ordering Paragraph 6:

“including the redefined project at Plant G6 at an estimated cost of \$1,470,000,”

2. San Gabriel Valley Water Company (San Gabriel) may file Tier 2 advice letter consistent with the modification made in this decision to Decision 11-11-018. The Division of Water and Audits (DWA) will review the advice letter from San Gabriel for compliance with the modification to Decision 11-11-018. If the advice letter is consistent with today's decision, then Division of Water and Audits may approve it accordingly. If the anticipated advice letter is found to be not consistent with today's decision, then DWA must reject the letter and San Gabriel must file a new Tier 2 advice letter consistent with today's decision.

3. Application 10-07-019 is closed.

This order is effective today.

Dated September 15, 2016, at San Francisco, California.

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

LIANE M. RANDOLPH

Commissioners

Commissioner Carla J. Peterman, being necessarily absent, did not participate.